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Sky Delivers Strong Result and Announces Capital Return and Confident Commencement of Dividends

Sky Network Television Limited (Sky) has delivered a strong result for the 2022 financial year, driven by a return to growth in core revenue, cost control and a clear focus on execution of strategy.

Sky has also provided an update on its capital management strategy, with Chair Philip Bowman saying: "Sky is in a solid cash position resulting from strong and sustainable cash generation and the sale of the Mt Wellington properties. In addition, we have an improved earnings outlook, and access to an undrawn banking facility of $150 million."

"Against this backdrop the Board has established a capital allocation framework that provides the opportunity to return capital of approximately $70 million to shareholders and deliver a sustainable dividend whilst also reinvesting in the business to support future growth and value creation."

Key points of today's announcement:

- Customer relationships grow to 990,761 (+4%)
- Revenue growth of $24.9 million to $736.1 million (+4%), fuelled by increase in core subscription revenue and growth in average revenue per user (ARPU) for both Sky Box and Streaming
- The strong cost focus delivers $35 million of permanent and one-off operating cost savings in line with Sky's December guidance update
- EBITDA of $169.0 million ($153.7 million adjusted for one-offs including $14.0 million gain on property sale)
- Reported NPAT of $62.2 million (+41%) / Adjusted NPAT[1] of $49.2 million (+12%), above the guidance range
- Confident return to paying dividends with a fully imputed final dividend of 7.3 cents per share (60% of Free Cash Flow[2]).

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[1] Adjusted NPAT has been provided as this gives a useful comparison for evaluating the underlying performance of the business as it adjusts for one-off items, including the gain on sale of the property. A reconciliation to GAAP is available in the Financial Overview of Sky's 2022 Annual Report.

[2] Free Cash Flow is defined as net cash from operating activities, less net cash used in investing activities, less payments for lease liability principal, and excludes proceeds from sale of Mt Wellington properties. 60% ratio is based on smoothed cash flow across the year.

Commenting on the results, Chief Executive Sophie Moloney said: "This strong result delivers on the promise that Sky has reached a positive inflection point, with the trends we reported in the first six months now firmly established."

"Our focus on what matters most – our Customers, Content, Crew and Capability – is achieving results, and, encouragingly, means we outperformed against a number of our FY22 targets as the team continued to deliver for our customers, partners and investors.

Customers

Sky's customer relationships grew by 4%, led by strong gains in Streaming, including 14% growth in Neon and an impressive 53% growth in Sky Sport Now (cementing its position as the #1 streaming sports app for regular and casual sports fans). While Sky Box customer numbers are down 4.5%, Sky's more deliberate acquisition strategy (designed to reduce early tenure churn and no longer involving deep discounts) is starting to pay off and is expected to deliver valuable improvements in churn and Sky Box revenue. Sky Broadband customers were close to 18,000 after the first full year in market, achieving the targeted attachment rate to Sky Box of 3.3%.

Sophie Moloney commented: "The launch of the new hybrid Sky Box is a transformational moment for Sky, delivering unmatched choice and ease for our customers. Feedback from customers involved throughout the development process has been overwhelmingly positive, and we can't wait to share it with more New Zealanders. At the same time, our crew have been busy developing options to meet the particular needs of our customers on the soon-to-close Vodafone TV service, and we look forward to welcoming these customers to a total Sky experience."

Content

"Sky's unmatched line-up of sport and entertainment content plays a significant role in attracting new customers and keeping them engaged. We are delighted to have won and renewed a number of key content rights during FY22. These include important wins like the Premier League which returned to Sky's screens earlier this month and is already making a positive impact on customer engagement, as well as securing great content from ViacomCBS (now Paramount) and WarnerMedia as part of our extensive entertainment offering."

"While our programming costs line is significant, content is at the core of our business. As the ultimate aggregator of the biggest bundle of content in the New Zealand market, it's the power of our platform (across Sky Box, streaming, Sky Business and free-to-air) that enables us to maximise the value of this investment, and at the same time deliver value for our customers and rewarding relationships for our partners."

Financial

Revenue growth of 4% to $736.1 million was driven by strong growth in Streaming of 27%, continued improvement in Sky Box revenue decline from 8.6% in FY21 to 3.4% in FY22, an initial contribution from Sky Broadband, and continued recovery in Commercial and Advertising revenues.

"It is very pleasing to demonstrate that the return to revenue uplift we reported at our interim results has translated to full year growth, with an improving trend in Sky Box, and all other revenue lines having grown. Importantly, this result also included increases in average revenue per user (ARPU) across both Sky Box and Streaming," said Sophie Moloney.

Other income increased by 7% and included the $14.0 million gain from the sale of Sky's Mt Wellington properties (for $56.0 million) which completed in March 2022.

"While the 2022 financial year included an expected step-up in sports and entertainment programming costs, our wide-ranging cost review announced in December 2021 identified total potential cost savings of $40 to $45 million, and we have delivered on that promise with today's result having realised savings of $42 million across opex and capex. Our focus on costs remains and whilst investment to fuel future growth will involve increased operational and capex spending - including for the rollout of the new Sky Box to customers - this will be partly off-set through further permanent savings already in our sights."

Reported NPAT increased to $62.2 million (+41%) with Adjusted NPAT of $49.2 million (+12%), above the guidance range.

Capital Management

As previously indicated, the Board and Management have undertaken a detailed review of Sky's capital management strategy, taking into consideration likely capital needs, opportunities to invest to drive future growth as well as future performance projections.

All capital return options were reviewed and after careful consideration, including taking into account shareholder feedback and input from advisors, the Board will propose to the 2022 Annual Shareholder Meeting a return of capital of approximately $70 million through a Court sanctioned pro rata share cancellation – a return of approximately 40 cents per share held on the record date to shareholders (subject to rounding)[3].

This approach was selected as the most appropriate way to return a significant sum to shareholders, offering a fair and efficient mechanism that treats all shareholders equally.

The Board has also approved a final dividend of 7.3 cents per share (fully imputed), equivalent to 60% of Free Cash Flow[2], to be paid on 23 September 2022.

Philip Bowman thanked shareholders for their support, noting that: "Not only have we made good progress against strategy, but improved financial performance combined with greater confidence in the future has allowed the Board to declare the final dividend for FY22 as well as the capital return."

"These initiatives strike a careful balance between returning surplus capital, providing an income stream to shareholders, and retaining the flexibility to invest for future growth."

[3] The capital return will result in the cancellation of shares, with shareholders receiving payment for each share cancelled. The price per share cancelled and cancellation ratio will be determined closer to the time, and are expected to be set such that, where no rounding is applied to a shareholder, that shareholder will receive 40 cents per share held on the record date. Fractional entitlements will be rounded, such that shareholders may receive more, or less, than 40 cents per share held on the record date where rounding is applied to them.

An indicative timetable and key facts regarding the return are included at the end of this release and further information will be provided in the Notice of Meeting which will be sent to shareholders in advance of Sky's Annual Meeting to be held on 2 November 2022.

Outlook

Sky expects to see continued growth in customer numbers and revenue. While FY23 will include the anticipated increase in programming costs, this will be partly offset by the full year benefit of FY22 permanent cost savings and next phase of cost reduction measures. Capital investment will increase largely due to the roll-out of the new Sky Box and is likely to remain elevated in FY24 before reducing thereafter.

In addition to the investment in the new Sky Box roll-out, FY23 will see Sky invest further to fuel growth through continuing the digital transformation of its technology platform, enhancing data analytics capabilities, developing digital engagement channels and expanding its capability in advertising.

Sky has released guidance for FY23 including Revenue of $750 to $770 million; EBITDA of $150 to $170 million (midpoint of 4.1% above FY22 EBITDA on a normalised basis); NPAT of $50 to $60 million and Capex of $60 to $75 million.

Sky's balance sheet, supported by an undrawn bank facility of $150 million, is expected to remain strong following the return of capital. Based on delivery of the recent guidance referenced above, the Board anticipates paying FY23 dividends at the upper end of the target pay out range of 50% to 80% of Free Cash Flow (excluding one-offs), and expects total dividends in the range of $17 to $23 million in FY23.

Sophie Moloney said: "While there are clear economic headwinds in the current financial year, we are looking with confidence to FY24 and beyond, as we move beyond this inflection point and position the business to capture the opportunities that are firmly within our sights."

ENDS

Authorised by: Sophie Moloney, Chief Executive Officer

Sky will hold a webcast briefing at 10:30am (NZT) to discuss the results. Details on how to participate are available here: https://www.nzx.com/announcements/396146

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Additional information regarding the proposed return of capital to shareholders

Key facts:

- Total cash return to shareholders of approximately $70 million expected in late November 2022.
- Capital return to take place by way of a High Court approved scheme of arrangement with shareholder approval being sought at Sky's Annual Meeting on 2 November 2022.
- Sky will seek a binding ruling from the Commissioner of Inland Revenue to confirm the proposed return of capital is not in lieu of a dividend. A class ruling from the Australian Taxation Office (ATO) will also be sought.
- The capital return will result in the cancellation of shares, with shareholders receiving payment for each share cancelled. The price and cancellation ratio will be determined closer to the time.
- The capital return will not alter shareholders' proportionate shareholding in the Company or future voting and distribution rights.
- Sky shareholders will receive more information regarding the capital return in the Notice of Meeting that is expected to be released in October.

Indicative timetable:

EVENT	**DATE**
Notice of meeting distributed	October
Annual Meeting/shareholder vote	2 November 2022
Final orders made by High Court	mid-November 2022
Payment to shareholders	late-November 2022

* Dates above are indicative only.